



AUDITOR-GENERAL
SOUTH AFRICA

Deputy Director-General
Limpopo Province
Local Government and Housing
Private Bag X9485
Polokwane
0700

30 November 2010

For attention: Chief Financial Officer

**FINAL REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF GREATER GIYANI LOCAL MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2010**

1. The above-mentioned final report of the Auditor-General is herewith submitted in terms of section 21(4) of the Public Audit Act, 2004 (Act No. 25 of 2004), read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).
2. Until tabled, or published by the Auditor-General, this final report is **not public documents** and should therefore be treated as **confidential**.

Yours faithfully

For AUDITOR-GENERAL

Reference: 60056REG09/10
Enquiries: Muhammed Essa

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER GIYANI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to the accompanying financial statements of the Greater Giyani Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Qualified Opinion

7. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Giyani local municipality for the year ended 30 June 2010 financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

Revenue

8. In my previous audit report, I was unable to confirm that all income on account of the rendering of services for the year ended 30 June 2008 had been completely recorded. This matter had not been adequately resolved in the current year and I was unable to determine whether adjustments to the results of operations and opening accumulated surplus might be necessary for the year end 30 June 2010.

Employee related costs

9. The municipality could not provide sufficient appropriate audit evidence to support employee related costs to the amount of R14 991 760 included in the financial statements. The municipality's records did not permit the application of alternate audit procedures. Consequently I could not satisfy myself as to the accuracy and completeness of employee related costs for the months of November 2009 to February 2010.

Trade and other receivables

10. Trade and other receivables as disclosed in note five to the financial statements exclude amounts due on the sale of land. The municipality has accounted only for the amounts collected during the year as revenue from sale of land. The municipality's records did not permit the application of alternate audit procedures and consequently, the impact on trade and other receivables, and corresponding effect on sale of land and accumulated surplus cannot be ascertained.

Value added tax (VAT)

11. The municipality could not provide sufficient appropriate audit evidence to support the VAT amount on water related revenue and expenditure excluded from the VAT receivable balance amounting to R787 999(2009: R561 190). Consequently, I could not satisfy myself as to the accuracy and valuation of this balance in the financial statements.

Inventory

12. There was no system of control over inventory records on which I could rely for the purpose of my audit and there were no satisfactory audit procedures I could perform to obtain reasonable assurance that all inventory additions, issues, losses and write offs were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation and allocation of inventory disclosed at R400 556 (2009: R442 920) in note four to the financial statements.

Trade and other payables

13. Trade and other payables as disclosed in note 12 to the financial statements include accrued leave pay amounting to R2 931 393 (2009: R3 102 563) for which leave records were not accurately maintained. The municipality's records did not permit the application of alternate audit procedures, and consequently I could not satisfy myself as to the valuation and allocation, completeness and obligations of the accrued leave pay in the financial statements.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

14. As disclosed in note 9.1 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 20010 in the financial statements of the Greater Giyani Local Municipality as at, and for the year ended 30 June 2009

Unauthorised expenditure

15. With reference to note 29 to the financial statements, unauthorised expenditure of R3 699 573 was incurred by the municipality. The expenditure exceeded the limits of the different votes in the approved budget.

Fruitless and wasteful expenditure

16. As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure to the amount of R214 417 was incurred due to the following:
- Penalty on late payment to a supplier to the amount of R19 417
 - Payment of R195 000 made in the 2007-2008 financial year to a fictitious company as a result of a fraudulent transaction.

Irregular expenditure

17. As disclosed in note 30 to the financial statements, irregular expenditure to the amount of R12 155 702 was incurred due to the following:

- Proper tender process had not been followed for procurement amounting to R11 816 037
- Payment of R339 665 for councillors' cell phone expenses in excess of the remuneration allowance limits.

ADDITIONAL MATTERS

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

18. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

19. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, and financial management (internal control).

Predetermined objectives

20. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

21. The municipality did not submit the annual performance report in terms of section 46 of the Municipal Systems Act, and section 121(3)(c) of the MFMA.

Internal auditing of performance measurements

22. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Compliance with laws and regulations

MFMA

Municipal officials did not adhere to their statutory responsibilities

23. Municipal officials did not adhere to their statutory responsibilities as required in section 78(1)(d) of the MFMA:

- Not all service revenue due to the municipality was collected as 94% of the outstanding debtors is considered as doubtful.
- The assets and liabilities of the municipality were not managed effectively as the inventory system was not implemented to ensure that the assets were safeguarded and maintained to the extent necessary.

The internal audit unit was not functioning properly

24. The internal audit unit was not functioning properly as required in section 165(2) of the MFMA:

- the internal audit unit of the municipality did not prepare a risk-based audit plan and an internal audit program for each financial year
- did not advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal controls:

Expenditure was not paid within the parameters set by the applicable legislation

25. Expenditure was not paid within the required 30 day's from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure as required in section 65(2)(e) of the MFMA.

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

26. Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality. This is in contravention with section 15 and 11(3) of the MFMA.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

27. Expenditure was not incurred in accordance with the requirements of the Public Office-Bearers Act as set out in section 1 the definition of "irregular expenditure" paragraph (c) of the MFMA.

28. The municipality did not comply with section 114 of the MFMA which requires the accounting officer to notify the Auditor-General, National Treasury, and Provincial Treasury the reasons for approval of tenders not recommended as per the supply chain management regulations.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

29. Expenditure incurred was made in vain, and could have been avoided based on the fact that reasonable care had been exercised, as set out in section 1 the definition of "fruitless and wasteful expenditure" of the MFMA.

The accounting officer did not adhere to his statutory responsibilities

30. The annual financial statements of the municipality were not submitted to the Auditor – General for auditing by 31 August 2010. This is non compliance with section 126 (1) of the MFMA.
31. Contrary to section 122 of the MFMA the municipality did not compile GRAP compliant financial statements on initial submission as there were material adjustments that were required to be affected to the financial statements during the audit.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- Oversight responsibility*

- The accounting officer does not regularly monitor compliance by management with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

- **Financial and performance management**

- Quality, reliable annual financial statements*

- Annual financial statements submitted required numerous significant amendments as a result of lack of understanding of the applicable reporting framework standards.

- Proper record keeping*

- Financial and performance management records are not adequately maintained.

- The municipality did not use the inventory management system to facilitate perpetual inventory record keeping

- **Governance**

- Internal audit*

- There was no internal audit manager until January 2010, and no internal audit reports were issued during the financial year. There were no other formal activities performed for evaluating the entity's internal controls. There was also no internal audit plan for the 2009-10 financial year

OTHER REPORTS

Agreed upon procedures engagement

34. As requested by the municipality, an engagement is being conducted concerning compliance with supply chain management prescripts. The engagement was still ongoing at the reporting date.

Auditor-General

Polokwane

30 November 2010



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Auditing to build public confidence